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INTERNATIONAL CITY MANAGERS' ASSOCIATION
1313 EAST 60TH STREET - CHICAGO 37, ILLINOIS

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WATER SERVICE CHARGES OUTSIDE THE CITY

What is the practice of cities in charging for water sold to consumers outside the city limits?

Most municipal water departments, as revealed by a recent survey by the American Water Works Association, charge a higher rate for water sold to retail consumers outside the city limits than within the city. The rates outside the city vary from a small percentage to 100 per cent higher than within the city, with many cities charging about 50 per cent more. In a few states, such as Illinois, Ohio, Mississippi, and Wisconsin, state laws determine the rate charged by municipal waterworks to consumers outside the city. An Ohio law permits municipal and private waterworks to charge 10 per cent more than city rates, plus the cost of mains laid outside the city limits, and a Mississippi law permits a 25 per cent increase. In general, however, state utility commissions have no authority over rates charged by municipal waterworks, and cities are free to establish rates for consumers outside their limits.

Municipal officials generally agree that out-of-town consumers should pay a share of the capital cost of the system as well as the expense of delivering the water used. One authority has suggested that the basis of the charge should be the total cost of water service, including the average cost per foot for the distribution system as a whole, and that the outside consumer be required to pay in one sum or a series of time payments an amount equal to the capitalized charges made for construction costs. In addition, the consumer would pay the regular water rate charged within the city, and any extra burden which the city wishes to impose upon nonresidents would be added in the form of a percentage either of the initial charge or the water rate or both. Cities that levy and collect taxes for water system purposes can justifiably charge a higher rate than cities which do not tax for this purpose. Many municipalities must pay property taxes on water supply equipment outside their corporate limits. Some cities, such as New York and Chicago, sell water at fairly low rates to smaller nearby governmental units which in turn sell water to their citizens.

Some cities charge the same rates for commercial and industrial supplies, but charge higher rates for residential service. The water rates charged consumers outside the city limits are double the rates inside the cities of Joliet, Illinois; Fort Collins, Colorado; Augusta and Atlanta, Georgia; Anaheim, California; Durham and Winston-Salem, North Carolina; and Nashville, Tennessee. The rates are 50 per cent higher to outside consumers in Tucson, Arizona; Knoxville, Tennessee; South Haven, Michigan; and Syracuse, New York; 25 per cent higher in Colorado Springs, Colorado; Battle Creek and Bay City, Michigan; Marion, Indiana; and Sioux Falls, South Dakota; and 10 to 20 per cent higher in Elmira, New York; Eugene, Oregon; Zanesville, Ohio; and Hagerstown, Maryland. The higher rates charged to consumers outside the city generally apply not only to minimum rates but also to additional charges for usage. In addition, some cities, such as Holland, Michigan, require a deposit to guarantee payment of water bills. Other cities set a total minimum rate for nonresidents, which in the case of Lockport, New York, is \$25 a year, the rate being 50 cents per 1,000 gallons. A few cities, such as

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Hagerstown, Maryland, require signed agreements from all property owners outside the city limits served by the city water supply to guarantee a return of 10 per cent on the investment in water extension pipes. Los Angeles, in addition to charging higher rates, provides water service outside the city limits only where the property is contiguous to the city and mains already exist, or where trunk lines feeding other parts of the city cross county territory, or where the city has acquired water lines--in which case 80 cents per front foot street main assessment charge plus the service connection charge must be paid.

A possible approach to the problem is indicated in the experience of Kansas City, Missouri, where water rates to suburban consumers were increased a few years ago approximately one-third above those charged to water users inside of the city limits. The increase was made after a rate study and recommendations by a firm of consulting engineers. It was found that in recent years there had been an increase in water consumption outside the city limits, and that 10 per cent of the total metered consumption was outside the city. An analysis of water revenues during recent years, on the basis of a comparison with a fair charge for such service, indicated that the city had been furnishing water outside the city limits at a loss of about \$35,000 a year.

In the development of the water system Kansas City had invested some \$25,000,000 of which about \$10,000,000 had been amortized through rates largely paid by city consumers. It was recommended that consumers inside the city should pay, in addition to operation and maintenance costs, only an amount sufficient to cover interest and amortization on the present outstanding debt. The city has the obligation of constructing, maintaining, renewing, extending water facilities as needed, but out-of-town consumers have no such obligation of continuing or extending the service. It was believed, therefore, that outside water consumers should pay through rates a proportionate share of the cost of operation and maintenance, and in addition, an amount to cover depreciation and a return on the allocated part of the total investment applicable to their service. It was recommended that a depreciation rate of 1 per cent would cover directly the capital expenditures made for the use of outside consumers and that the outside service charges should provide a return of 5 per cent on that part of the investment in the entire waterworks which is devoted to outside service.

The Civic Research Institute in Kansas City, Missouri, also had made a study which showed that out-of-the-city water customers contributed only 5.3 per cent of the water revenue. The Institute pointed out that it would not be unreasonable to make water rates for out-of-the-city users at least 50 per cent higher than in-city rates. The Institute found that in 13 representative cities the surcharges for suburban water users were 100 per cent in three cities, 50 to 60 per cent in six cities, 33 per cent in one, and 20 to 25 per cent in three, while one city added 25 per cent to individuals and 50 per cent to municipalities for water service.

In metropolitan areas the central city generally supplies water to distribution systems owned and maintained by nearby suburban communities. The ICMA, three years ago made a survey of inter-municipal arrangements in this field and information on allocation of costs and contract provisions appears in Public Management for January, 1943, pp.7-12.